A Work Project, presented as part of the requirements for the Award of a Master's degree in Finance from the Nova School of Business and Economics.

Banco BiG – Financial Plan of the International Expansion to Italy

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03-01-2020

Through financial analysis, this paper aims at studying the profitability of BiG's international expansion to Italy. After understanding how BiG works and through thorough research of the banking market in Italy, a business model was constructed, based on market potential and previously identified segments in the bank that possess distinct factors, which allow them to stand out in the new market. It showed that, despite strong competition, Italy is a very large market and BiG will be able to capture a share of it that can bring them positive results. Based on these, it is recommended that the bank follows the expansion path, by bringing with them the SME financing app, for Wholesale and Trading Platforms, Deposits, Wealth Management and Advisory, for Retail.

KEYWORDS: BiG, Internationalization, Banking, Digital, Platforms, Wholesale, Retail, Deposits, SMEs, Trading, Wealth Management, Italy, Financial, Business Model

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

Financial Plan

Using a business model, the financial plan will assess potential market share for BiG and what that will mean in terms of Revenue

The financial plan aims at predicting how the revenue and cost structure will work, throughout the years, for the bank and for each segment, and what that will translate to in terms of margins, number of clients and market share.
After a detailed financial analysis for each of the selected products, an overall picture of how the bank is forecasted to look like financially will be presented.

Financial Plan → Capitalizer → First Wholesale segment product used to penetrate the market and its in-depth analysis → Deposits → Trading Platforms → The two digital Retail solutions that are brought right after capitalizer – in-depth analysis → Wealth Management & Advisory → First follow-up product, belonging to the Retail Segment and its analysis → Branch Costs → **Overall Results:** **Revenues** **Costs** **Margin**

As the years go by BiG will be able to increase the number of investors and SMEs enrolled in Capitalizer

The introduction of the Capitalizer in the market will face some difficulties and losses in the first years but it predicts increasingly positive results right after that.

BiG's market share of SMEs

First of all, to understand how many SMEs would end up selecting Capitalizer to fulfil their financing needs it was necessary to know **which of them would fall under the platform's scope**.

- Only small and medium-sized firms were considered, which amount to 179k, excluding micro and large firms, since they are outside target firms, with a turnover between €5m and €50m.
- Geographically, firms from the North (60%) and Centre (20%) were considered as BiG's target.
- To end this selection, only **SMEs that had financing needs** were considered as targets. This number represents 30% of the previously considered firms and is an estimate of SMEs that have historically sought capital (either debt or equity) and the ones that will face succession issues.

After this selection (**44k targets under the platform's scope**), to reach the number of enrolments in the platform, **several factors** were weighted, such as the digital openness of northern firms, the uniqueness of the platform and the low amount of equity transactions made in the Italian market.

There are 3 different sources of raising SMEs into Capitalizer: Local Team, Partnerships and Website & Ads. The first being very important, in the beginning, while the brand is less known and the latter requires substantial investment and will raise more clients with an established brand.

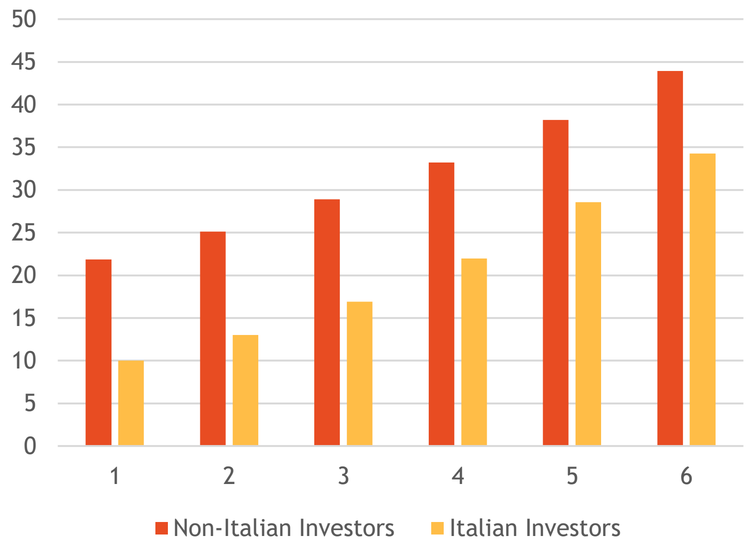
Summing up, during the first year in Italy, **84 SMEs are expected to be on Capitalizer**, growing increasingly during the first years in Italy and stabilizing after year 6, in which most of the companies in Lombardy have already been approached by the communication channels.

Italian SMEs on Capitalizer (% of scope)						
Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
84 (0.19%)	102 (0.23%)	146 (0.33%)	216 (0.49%)	377 (0.86%)	596 (1.35%)	774 (1.76%)

Investors on Capitalizer

Since cross-border investments are available, Portuguese and Spanish investors are available to finance Italian SMEs.

The number of non-Italian investors is considered to grow constantly at 15%, while the expectation for the Italian investor is that it reaches a total of 10, in year 1 and grows increasingly closer to the non-Italian number.



Capitalizer's revenues are dependent on the number of expressions of interest, non-binding offers and closed deals

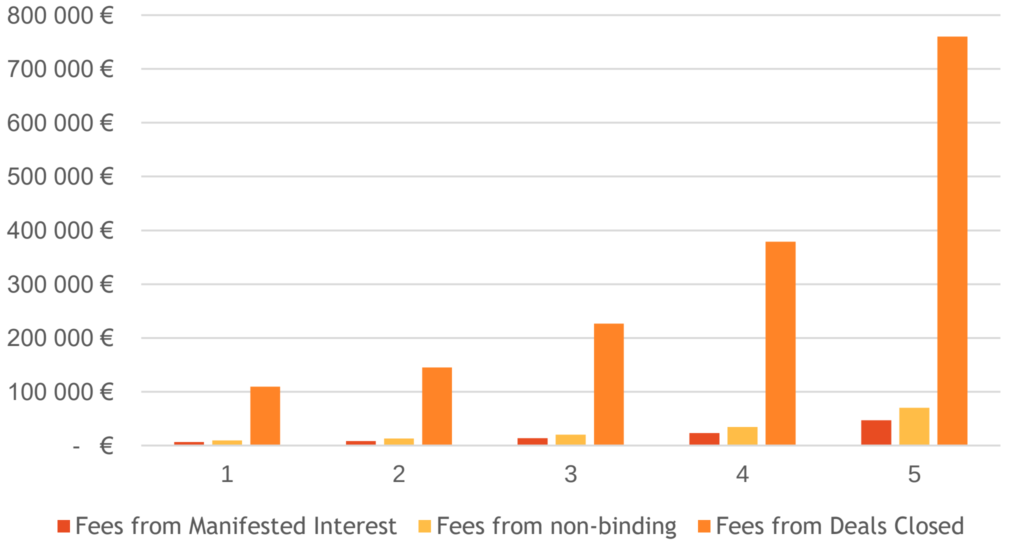
BiG BANCO DE INVESTIMENTO GLOBAL

Revenues

As stated in the pricing of Capitalizer, BiG will obtain revenues from manifestation of interest and non-binding offers towards the SMEs, as well as from deals closed:

- 50% of expressions of interest result on a non-binding offer
- 25% of non-binding end up in deals closed

Initially, **25 expressions of interest towards Italian SMEs** were estimated, for year 1, which is a result of 7% of the investors and 5% of the SMEs present in the platform. This number is expected to grow increasingly until year 8 where it stabilizes at 20% and 15%, respectively.



Costs

Nevertheless, there are also huge costs for the implementation of the Capitalizer, mainly in the first years since it is **necessary to create more brand awareness**.

Promotional costs are more variable since they depend on each year's publicity strategy and the performance of the partnerships established. In the first years the publicity will be more aggressive meanwhile, partnerships will increase, organically, over the years.

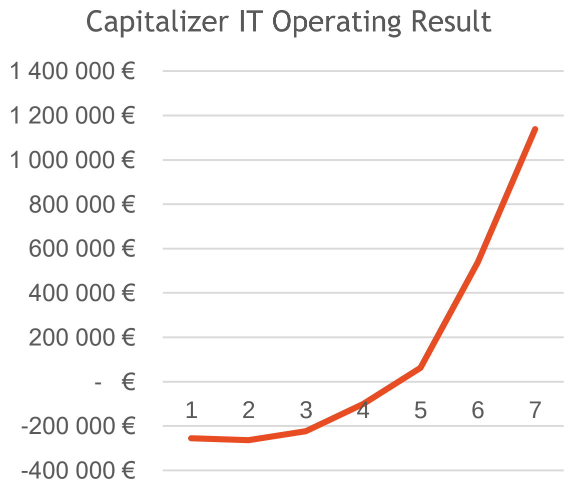
- Costs on social media depend on the amount of clicks
- Partnerships imply a 30% share of the closing Commission

There are also fixed costs. These are related with the branch established in Milan, personnel and the development, maintenance and R&D of the platform.

Operational Result

Expanding Capitalizer to Italy will **come with some losses in the first years.** The platform needs to reach a critical mass of SMEs to start to scale enough to be profitable and more powerful in the market.

In the following years after this turning point in year 5, it will generate profit enough to allow for the payback of the investment and present healthy margins that justify the expansion of the platform to Italy.



Deposits' margins will become positive in the sixth year of the expansion, supported by Deposit Solutions infrastructure

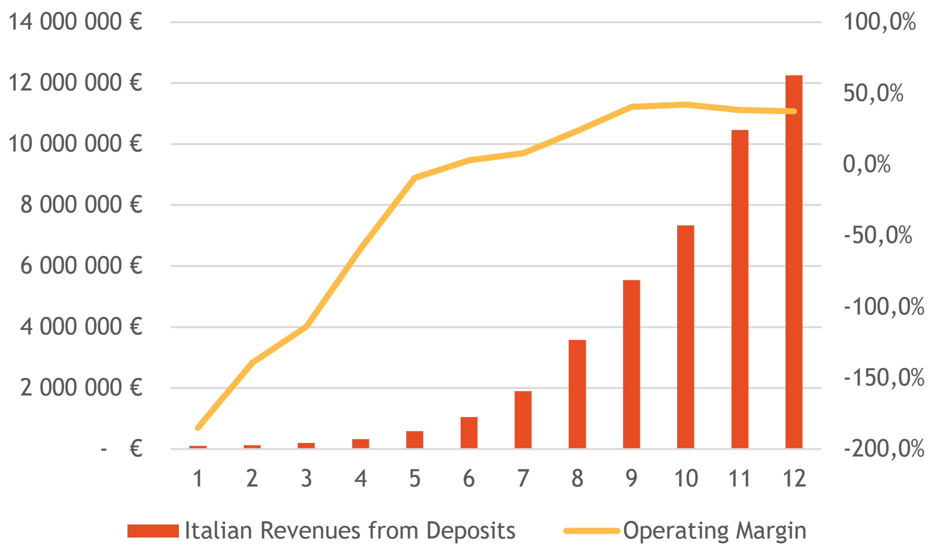
BiG BANCO DE INVESTIMENTO GLOBAL

Revenues

During the first years, BiG is expected to have a small number of depositors – 10,000 clients in year 1. This number grows exponentially as the bank establishes in Milan and, after this, due to the expansion to other cities. After 10 years, BiG will have, circa 250,000 costumers (around 0,4% market share).

The amount of the deposit per client its assumed to have a similar behaviour, clients in an early stage will be more conservative and averse, since they are not familiar with the solution and they will be testing the platform. It is expected that, at the entering in the Italian deposit market, the average deposit of target clients will be 10,000€. The amount deposited per client is expected to grow faster during the first years. The expected deposit per target client will be nearly 29,000€ after 10 years. For simplicity purposes, one customer is assumed to have only one deposit.

Taking into consideration the number of costumers and the average number of deposits and its value, per client, total assets deposited through BiG were estimated. From this total BiG gets an average 0,1% rate, for itself. The bank will reach the €1m in yearly revenues after year 4, and the €4m in the 6th year of the analysis.



*Deposits in BiG's own products were not considered in the model – revenues only come from commission and are not financial margin.

Costs

Costs related to the deposits' segment will not be complex. They will be separated in three types, since most of them are covered by Deposit Solutions and already deducted in BiG's share.

- Marketing costs will be divided into media adds and google search. Both will be dependent of the number of customers who the marketing will reach. Total marketing costs will be around €1m in total, for the first 5 years.
- Concerning personnel costs, the average salary of an employee dedicated to deposits will be 5,000€ per month. In the first year there will be 2 people working in this segment, this number will grow through the years and it in the 9th year 12 employees are estimated.
- Branch costs will be allocated according to the percentage of revenues of the product

Operating Margin

Margins will be negative for the first 5 years, which can be somewhat difficult to endure, but this segment allows BiG to bring costumers and revenue to other areas, acting as an anchor product and, thus, justifying its entrance.

The breakeven will occur only after this, due to the previously mentioned high marketing costs, that are channelled mainly through deposits, due to its simpler message and spill over effects.

After this, deposits operating margin will grow to be constant at around 40%.

Trading Platforms will be able to capture a share of the market from its peers by offering competitive prices

BANCO DE INVESTIMENTO GLOBAL

By expanding to a huge financial market such as Milan's, BiG will benefit greatly from introducing the trading platforms since the launching year.

BiG's market share of Trading Platforms

To find out which could be BiG's number of clients and its impact in total revenue, after implementing the trading platforms in the market, three different metrics were used.

- First, it was estimated how much business BiG would be able to capture when comparing to Fineco. Currently, Fineco has in its platforms 25.9m orders, annually, and each one of these orders is done at an average price of 2.9€. Adding to this, with the goal to take some clients from its peers, BiG will establish a price per order ~10% lower than the market.
- Furthermore, a deep analysis over the digital promotion of the platforms will also help to understand the number of clients BiG will be able to capture. Through the ads in the social networks it is possible to understand how many people it will reach and how many people will feel incentivized by it and, actually, end up using BiG's trading platforms.
- Finally, there are also some customers that will look for safest investments, such as deposits offered by BiG through Deposit Solutions, and will end up investing in the trading platforms, as a synergetic effect.

However, besides the constant growing rates of investors using digital trading platforms that are expected in Lombardy, which will create a bigger market for BiG to enter, there is also another rate which will increase over the coming years, which will be BiG's share of the market. Due to lower prices and a greater brand awareness, BiG will be able to strengthen its position in the market.

For starters, it is expected for BiG to have an equivalent of 0.6% of Fineco's current business volume.

Italian clients of BiG's trading platforms = % compared to Fineco + Spillover from Deposits

YEAR	1	2	3	4	5	6	7
Expected % compared with Fineco	0.1%	0.1%	0.2%	0.2%	0.3%	0.4%	0,7%
# of customers from deposits	200	264	425	765	1186	2390	3704

Revenues

Trading platform's revenues come from the stream of commissions generated.

Apllying the 10% discount when comparing to competitors' market prices, assessing the number of users and the number of executed orders by taking into account marketing and customer spillover from deposits, revenues were estimated (in €), as follows:

YEAR 1	113 544.00
YEAR 2	143 424.00
YEAR 3	207 677.95
YEAR 4	333 482.31
YEAR 5	501 165.77
YEAR 6	934 231.40

By gaining a lot of clients that come in through deposits, trading platforms are able to reach very health margins

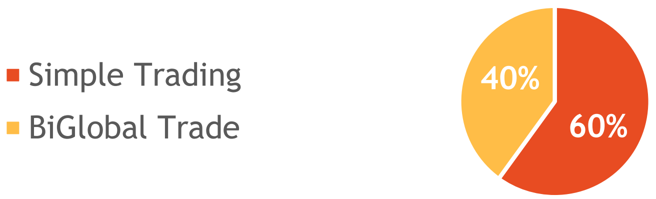
Simple Trading vs BiGlobal Trade

It is also of major importance to discriminate the stream of commissions prevenient from each of the trading platforms present in Italy.

Considering Lombardy's reality, self-directed trading is already well-developed and there is a huge number of habitants that already have financial habits, try to find alternative solutions and are financially literate, when comparing to Europe.

However, it is expected for BiG to capture more clients with the Simple Trading platform since, experienced investors are less willing to move from their current platform to BiGlobal Trade. Moreover, there is still a lot of investors looking for simpler and more intuitive alternatives.

Therefore, it is assumed that the main stake of commissions come from the Simple Trading solution, and a lower percentage from the BiGlobal Trade.



Costs

Some investment will be made in digital advertisement for BiG's platform offer, still it will not be as large, since most of the investment is being done in Deposits, that can also bring clients and has a simpler message.

- Costs related with digital advertisement are estimated to be around €70k in the first 5 years.

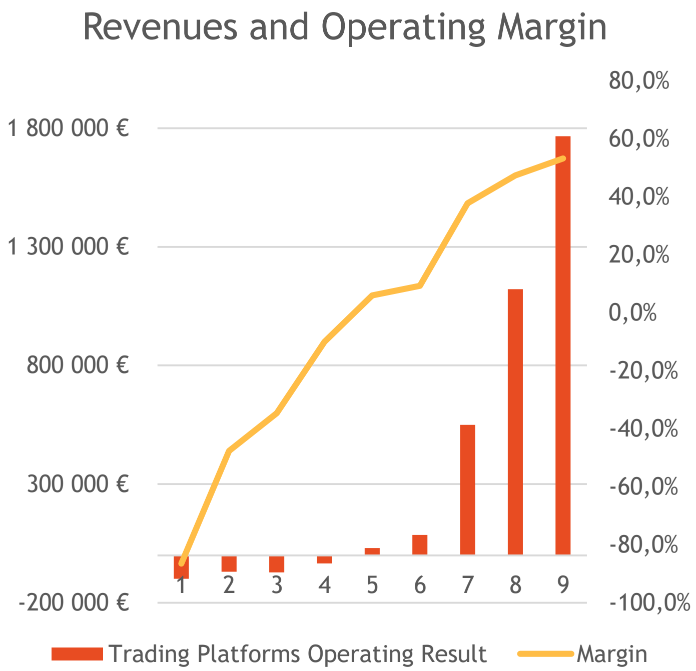
The strategy followed should optimize BiG's position while increasing as much as possible the cost-effectiveness of each ad.

There are also costs related with the good-functioning of the platform.

- These costs are already taken into account as BiG does not get all the share on the partnerships established with Saxo Bank, but on the upside BiG does not have to invest any of its own money in app development.
- And, also, with the personnel based in Milan.

Operational Result

After year 5 operational result starts being positive. Due to the clients coming from Deposits and the strategic decision of using it has anchor, there is less need of costs through the platforms segment. This proves usefull in allowing this segment's margins beofore tax to go above th 60% margin, after year 9.



Wealth management and advisory will increase BiG's margins in Italy

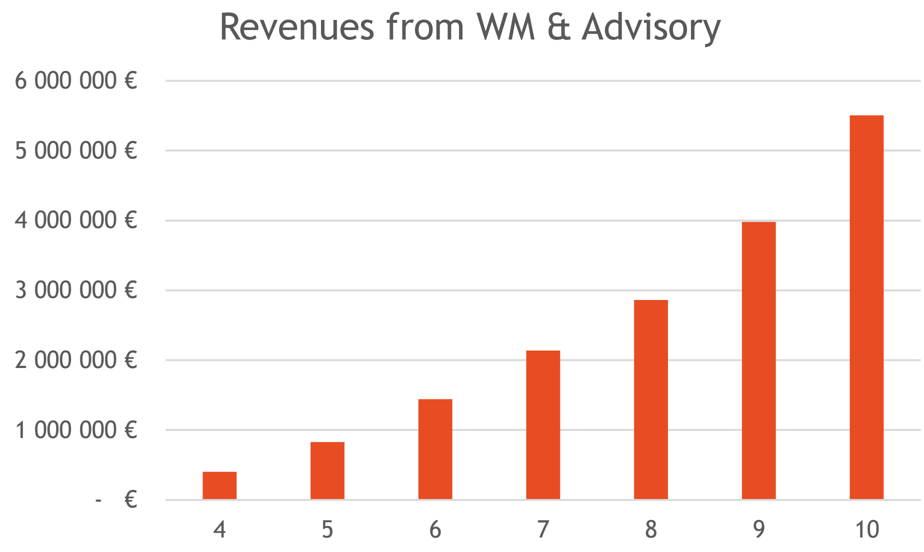
BiG BANCO DE INVESTIMENTO GLOBAL

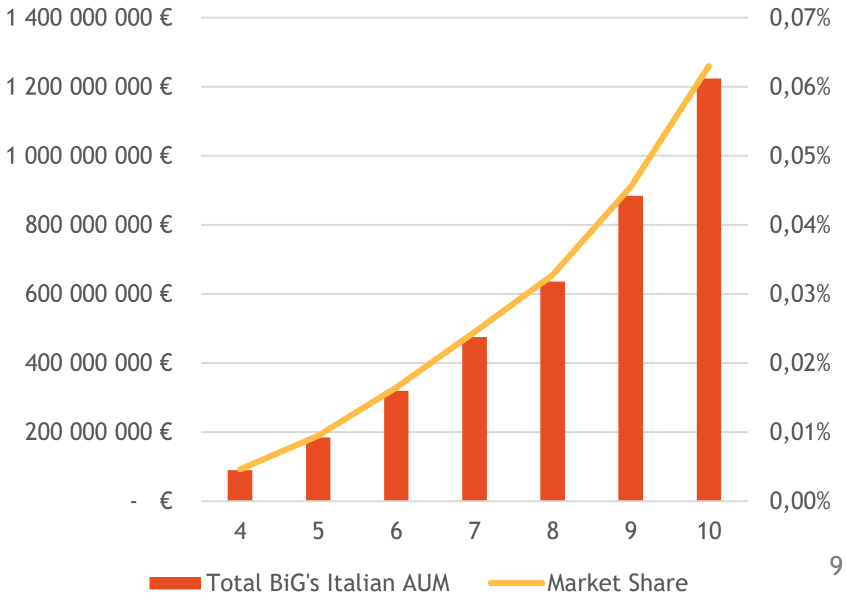
Senior Private Banker
100m AUM

Private Banker
50m AUM

Junior Position
25m AUM

- The second stage of the expansion will allow BiG to significantly increase its margins as it will offer the market products that are way more profitable for the bank.
- The main services of this second stage of the expansion will be wealth management and advisory, therefore, this would require BiG to have a specialized three members team for this service. The team members would have different levels of seniority and consequently different values of assets under management, reaching a combined value of around 175M initially brought to the market that can immediately increase to around 200m due to the existent clients of BiG.
- This service should be introduced in the market in the 4th year of the expansion and it is estimated that BiG's portfolio grow every year.
- Wealth management and advisory generate fees of 0.45% for BiG, so, is obvious that this source of income will be a significant part of BiG's revenue in Italy from year 4 onwards.
- Costs are only coming from the Branch and the Financial Advisor's teams added and the pre-tax margin stabilizes after year 8 at around 50%.





Branch costs will be allocated between the four segments

All products benefit from having a branch, therefore, the costs related to the facility must be shared. BiG should be cautious when analysing how to allocate costs between products. Cost allocation is an important point when considering different products and its margins. If costs are not correctly allocated, there may be profitable products with negative margins or unprofitable products with positive margins. In this case, branch costs will be shared according to the revenues generated by each product. The intuition behind is that the more sales, the more clients would need support from the branch.

Total Rent

The costs associated with the total rent will be computed by an average rental cost per branch multiplied by the number of branches. Looking into the table, it is expected for the first 12 years, BiG will have **6 branches** opened in Italy. It was assumed an **average rent cost for each branch of BiG of 5,000€ per month**, taking into consideration store rents in the cities where the branches will be opened.

Branch License Cost

As seen before, open a branch in Italy will be **free of charges**.

Fixed Employees Cost

The number of **employees required in a branch will be 3**, in order to guarantee its business operation. An average **salary of 5,000€, per month, will be paid**, taking into consideration wages in this Italian regions. Total fixed employee cost will be the number of employees multiplied by the annual salary.

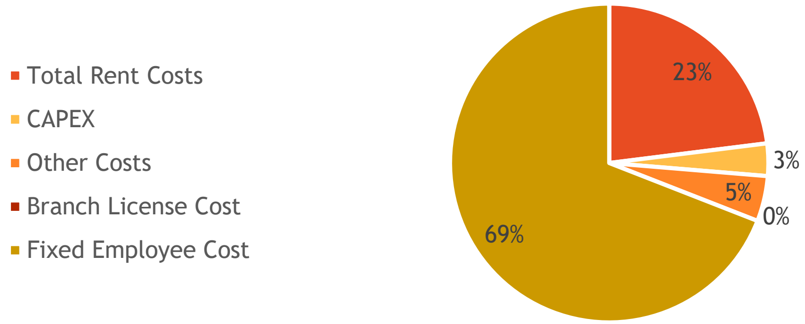
Capital Expenditures

The Capex will be the costs associated with the opening of a branch: infrastructure costs and necessary equipment. The average cost will be expected to be register in the year before the branch opening and each branch will have an average expenditure of 30,000€.

Other Costs

There will be other charges related to the daily business operation of each branch, such as electricity and water and some material expenses. The average cost associated with them per branch will be 12,000€, per year.

year	1	4	7	8	11
City	Milan	Milan	Brescia	Bergamo	Venice, Bologna
Total Branches	1	2	3	4	8



The expected investment required to open a branch will be 30,000€ and the expected total cost of renting a branch in Italy will be 120,000€, per year, while, to pay its employees, it will cost the bank 180,000€, per year. The total expected cost related with BiG branches for the first 6 years will be 2,358,000€.

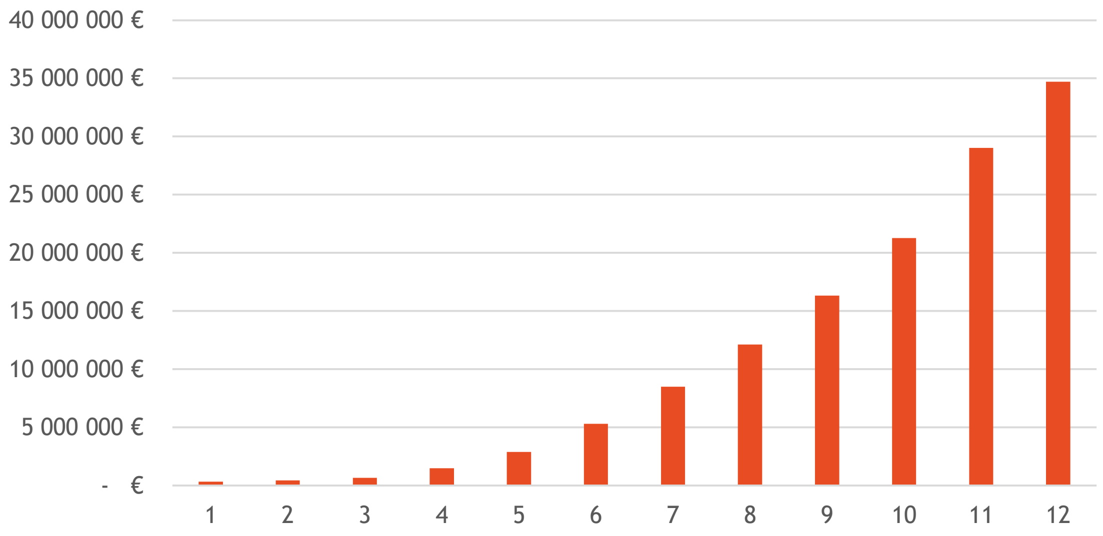
Overall, BiG is expected to reach the total revenue threshold of 5 million euros by the 6th year present in Italy

BANCO DE INVESTIMENTO GLOBAL

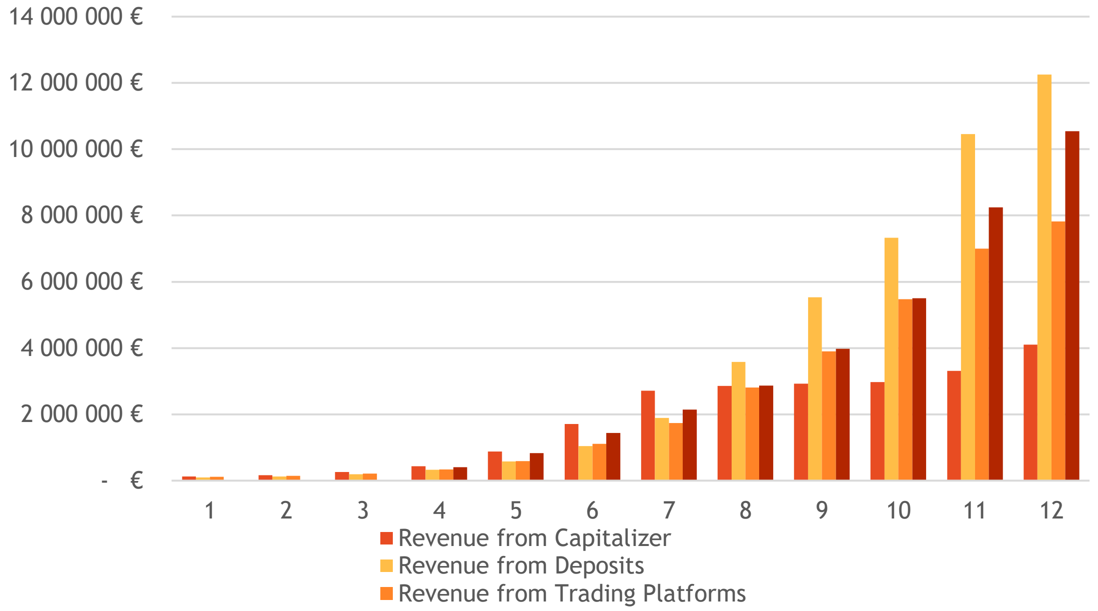
The following graphs show Total Revenue evolution over the first 12 years in Italy and its breakdown between the four segments suggested for the expansion to Italy.

- It can be pointed out that by year 12, Deposits are the greatest individual contributor to BiG's generated Revenue, closely followed by Wealth Management & Advisory.
- Although this is the case, in the beginning of the expansion, it was Capitalizer the first product to start to generate more significant revenue.
- Still, the retail share gained importance, even more with the introduction of Wealth Management and Advisory in Year 4 and, by the last year analysed amounts to about 85% of total revenue levels, that reach the €5.3m mark by year 6.
- Total Revenues grow increasingly, after some years spent gaining traction, as BiG grows inside Italy and the brand gains more power and more customers become interested in the bank's services, until year 8. After that it grows significantly, but not as fast (Lombardy is already stable) and in year 10, with the expansion to other regions and cities it starts growing increasingly again.

Total Revenues



Revenue Breakdown

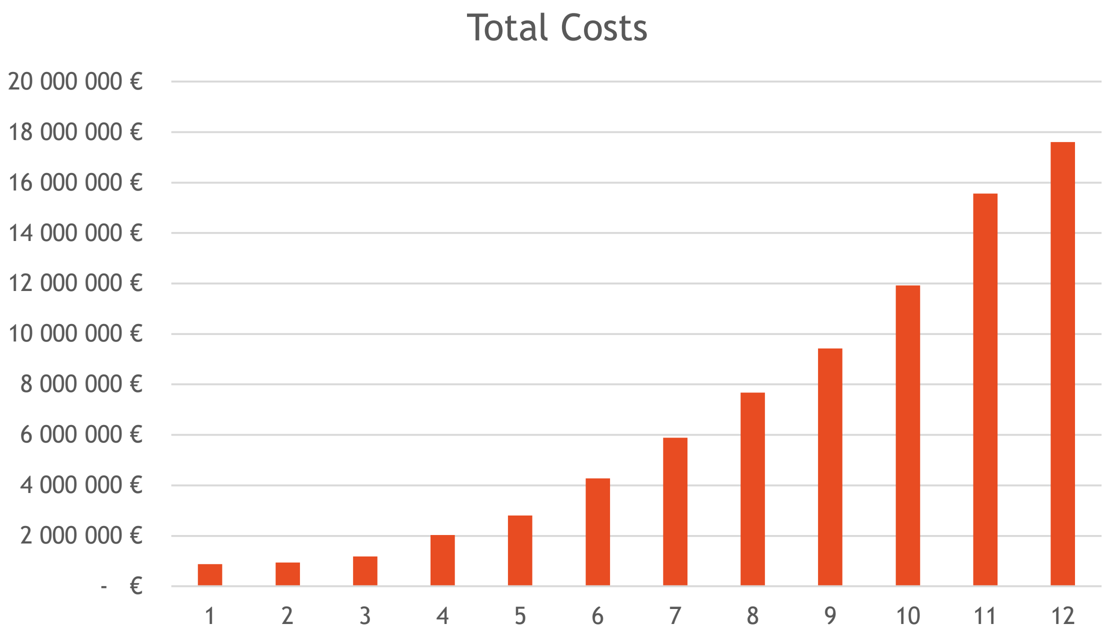


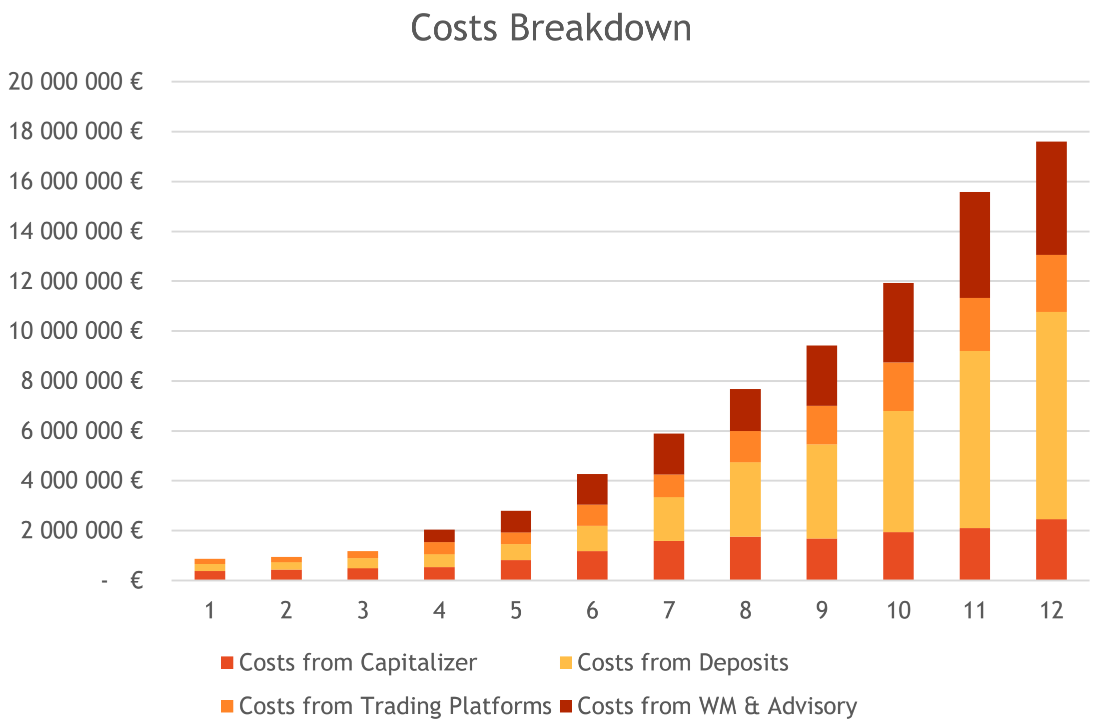
Despite the increase in cost levels over the years, only in the earlier ones do these levels mean negative results for the bank

BiG BANCO DE INVESTIMENTO GLOBAL

The following graphs show Total Costs evolution over the first 12 years in Italy and their breakdown into the four segments suggested for the expansion to Italy.

- As well as being the larger generator of revenue, Deposits also brings the most costs – although it can still present similar margins to other services after it stabilizes, the great deal of marketing investment, with the objective of gaining more customers for BiG, justifies these high expense levels.
- Costs increase substantially in year four and after, but the scalability of the business still allows Revenue levels, seen before, to compensate this.
- Once again, the retail share gains importance, even more with the introduction of Wealth Management and Advisory in Year 4 and, by the last year analysed amounts to about 90% of total cost levels, that reach the €4.2m mark by year 6 and €17.6m in year 12.
- The fact that there are not as many companies as there are individuals, justifies the stagnation of digital marketing investment in Capitalizer, after year 7, in which the platform is already well communicated in Italy. These costs rise again when moving to other regions in year 10.





A healthy margin after tax level is reached at year 7, after some years of required investment and growth

BiG BANCO DE INVESTIMENTO GLOBAL

The following graphs shows the evolution of BiG's result after taxes (using 27,5% Italian corporate tax rate), as well as the margin generated over the years invested in Italy.

- All the revenue and cost structure seen before translates into this graph on the right.
- The first 5 years mean negative results (€1.5m total net losses after taxes) for the bank and if predictions are flawed and the business does not scale enough to compensate for these costs (€7.8m in the first 5 years) it can be tough for the bank to continuing bearing the negative cost structure for long.
- Still, from the predicted numbers, BiG is able to reach a stable 35% margin after taxes, combined with a €11.5m net result, by year 12.
- After the consolidation of Lombardy, by year 6, if everything is successful, the bank already presents good health levels to sustain its presence in Italy.
- However if that is not attained, the bank will probably have to give up on this move to Italy. The alternative would be putting even more money in, which could prove to be unsuccessful.